

Securing Essential Imports for the EU Energy



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New opportunities or new threats?

The Employers' Group is meeting in Zagreb this week (13 - 14 November) to examine energy security in depth, and in particular to look at the issue of energy as an essential import: securing predictable and reliable supplies of energy is of crucial importance for the EU.

The seminar will look at the EU's dependence on imports of energy and at the main options for ameliorating this, especially given the on-going threat of energy disruption arising from developments in the Ukraine, including any hostile Russian action on energy. It will as well examine possible alternative sources of supply of predictable and secure energy, including the role of Turkey as a key energy transit/hub and at other options such as offered by renewables.



Ukraine, Russia
and the EU's energy
security

Energy security
from the Croatian
perspective

Facts & Figures

Diversification of energy supply is of particular urgency for a number of EU Member States, including Croatia and the three Baltic States. Many Member States are only able to rely on a limited number of energy suppliers and are therefore vulnerable to bottlenecks and price volatility, especially for gas and oil.

In any consideration of essential imports for the EU, energy is critical as a fundamental component in maintaining both our standard of living and our quality of life. Russia, Norway and Algeria between them account for 85% of EU natural gas imports and almost 50% of crude oil. The current EU "TTIP" negotiations with the US will be important in looking to create synergies in dealing with security of supply, in identifying supply and infrastructure bottlenecks and mechanisms to handle crises and disruptions.

The international energy market is highly competitive and volatile. Whereas imports comprise 55% of the EU energy mix, the EU as a whole imports 60% of its gas and over 80% of its oil, with fast growing competing demand from elsewhere, notably emerging economies. Global energy demand could increase by 40% within 20 years whilst an inadequate response to climate change may complicate matters further.

Energy is an area of shared competency between the EU and Member States, complicated by issues of commercial confidentiality and national sovereignty. The Commission is setting up an information exchange mechanism to cover intergovernmental energy agreements between Member States and third countries. Hitherto no one in the EU has had an overall picture opposite any specific trading partner: but those trading partners certainly do so about us. There are some 30 intergovernmental agreements between Member States and third countries on oil, some 60 on gas - but fewer on electricity.

The Committee has welcomed this as "an appropriate step toward a common EU external energy policy" in line with the EU Energy 2020 Strategy, adding that "it is essential that Europe should act with a united voice".



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EU energy - Facts & Figures

53% of the EU's energy consumption was linked to imports (2012).

The EU spends **more than 1 billion euro every day** on importing energy.

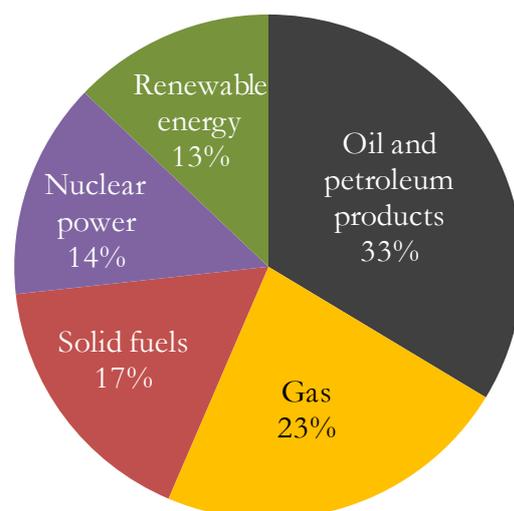
EU fossil fuel resources (2013):

- ◆ 0,4% of global reserves of **oil**
- ◆ 0,9% of global reserves of **gas**
- ◆ 6,5% of global reserves of **coal**

Between 1995 and 2012

EU's primary **energy production decreased**
 by almost **one-fifth**

EU's energy mix (2012)



EU imports and main suppliers (2013):

- ◆ **88% of crude oil** (Russia - 33%, Norway - 11%, Saudi Arabia - 8%)
- ◆ **66% of natural gas** (Russia - 39%, Norway - 34%, Algeria -14%)
- ◆ **42% of solid fuels** (Russia - 26%, Columbia - 24%, US - 23%)
- ◆ **95% of uranium**

Security of supply:

the number one energy policy challenge

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All three of the EU's main energy objectives – combatting climate change, ensuring competitiveness and securing supply – have to be met simultaneously by EU energy policy. But if one of these objectives has to be given absolute priority, it should be security of supply. Modern societies do not function without energy, as even short disruptions in supply can cause significant damage.

A diversified, secure and safe supply of energy also helps to keep price increases and fluctuations at bay. This is of increasing importance for both public well-being and the competitiveness of EU industries.

Security of energy supply has an internal and an external dimension. Internally, sufficient and diversified supply capacity and distribution infrastructure currently present an investment challenge. Member States, being responsible for their own energy mix, have to act accordingly while cooperating in a responsible way with their neighbours. A competitive, efficiently functioning internal market is urgently needed to ease supply and price pressures.

The external dimension of security of supply is now high on the agenda. The EU is highly dependent on external energy supplies, especially in the case of oil, at over 80%, and gas, at over 60%, with both figures increasing. Its external energy bill is thus huge. This in itself would not necessarily be a concern. The problem is that a large share of both fuels stem from too few – and too unreliable – suppliers. This has been common knowledge for decades, since the first oil crises in the

1970s and in more recent years as a result of problems with gas deliveries from Russia. Still, very little was done until the crises in Ukraine provoked a stronger reaction and more serious initiatives in the EU.

The proposals for a new approach and common measures are on the decision-makers' desks. The main responsibility for action now lies with the Member States. Narrow national interests need to give way to common policies and measures. External energy relations should be at the top of the EU's foreign policy agenda. A truly common approach to diversifying sources of supply, as well as supply routes urgently need to be developed; new infrastructure must be built.

The President-elect of the Commission has declared his commitment to an Energy Union. The EESC has advocated such an idea for some years now, and we expect efficient delivery of the proposal. Stakeholder participation and dialogue with civil society should be stepped up and better organised in order to inform policy choices, even in cases where decisions have to be made on difficult trade-offs. However, without visionary and responsible leadership, these challenges will not be met in time.

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Energy security from the Croatian Perspective



Thanks to its geographical location and its natural resources, Croatia is in a good position in terms of its energy security and has its own production of both crude oil and natural gas. Following the recession and the fall in market demand, natural gas production currently covers around two thirds of domestic needs; factors such as a very cold winter could well result in a need for more imports.

Croatia does not have enough domestic crude oil to meet its needs and is therefore a net importer of crude oil. Croatia does, however, have the Adriatic pipeline (Jadranski naftovod) which transports crude oil and runs from the Northern Adriatic Coast at Omišalj into continental Croatia and then farther east and north into Serbia, Bosnia Herzegovina and Hungary. In addition, Croatia has two refineries at Rijeka and Sisak, both of which have more than enough capacity to meet local demand. Crude oil has been extracted in Croatia for over 100 years and refining activities have taken place for over 130 years. One area in which Croatia could do more to improve its relatively good situation in terms of its security of supply is to build more natural gas storage facilities.

Most importantly, from a security of supply perspective, Croatia is well placed as it has access to the sea. Ports in Rijeka and Ploče and a growing array of storage facilities built in strategic locations by various investors such as JANAF and INA all mean that Croatia is able to import refined products, crude oil and natural gas. It is therefore not only well placed as far as its own needs are concerned but it can also play an important role in terms of the region's security of supply. For this to happen, Croatia would need to allow the reverse flow of natural gas to Hungary and Slovenia, a point which

the European Commission also highlighted in its October 2014 analysis of the resilience of the EU's energy system. In addition, the construction of interconnectors to Bosnia Herzegovina would greatly increase that country's security of supply. Currently, Croatia can only import natural gas, which played a very important role in sheltering the country from the adverse effects of the 2009 Russian gas supply crisis. It is also possible for Croatia to build an LNG import plant at Omišalj on the Northern Adriatic coast, which in conjunction with interconnectors to Hungary would allow it to act as an entry point for natural gas supplies to regions as far north as Ukraine. This would also mean improved access to other European natural gas pricing hubs and even the creation of a new hub at Omišalj – improved access to pricing hubs would in turn improve the negotiating positions of incumbent market participants with suppliers from markets such as Russia.

Over the past few years – partly as a result of joining the EU – Croatia has liberalised retail fuel prices and a significant part of the natural gas market. Nonetheless, households in particular are still subject to regulated prices. Further progress on this segment of the market would increase the incentives for private sector investment in the energy sector. More than 50% of Croatia's own electricity consumption is produced in the country while the rest is imported. The extent of imports is influenced by hydrological conditions given the dominance of hydroelectric plants which ensure that half of all electricity production comes from renewable energy sources.

The electricity market is liberalised which means that consumers can choose their electricity provider. Croatia is also a transit country for electricity which is exported from Bosnia Herzegovina and Serbia to the West and

the North. Total energy consumption in Croatia has been falling for several years with petroleum products recording the biggest drop. Although this decrease is slowly stabilising this trend is not expected to change in the near future.

Overall, from a security of supply perspective, Croatia is well placed due to its access to the sea and other existing and planned pipelines across the country. The country is also in a position to leverage thanks to its geographical location and to play a much more

important role in terms of ensuring the security of supply in South East Europe and beyond.

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Securing energy supply for a Secure Europe

There is no consensus on the meaning of energy security. The concept has changed over time, depending on external factors that shaped international relations or public perception.

Sir Winston Churchill has frequently been cited as the first to link energy security to the diversification of its sources. After the first oil crisis of 1973, the concept also came to encompass the economic dimension of energy supplies – that is to say, “*the availability of sufficient supplies at affordable prices*”. Indigenous renewable energy sources became a key element in the European energy sector.

Other scholars and experts have stated that the strategy for ensuring security of supply lies in the simultaneous combination of four principles: Churchill’s diversification, resilience, integration and information. To this list one further element should be added, that of “energy conservation”. This last element is intertwined with the challenge of climate change.

Integration of markets is, in some ways, a corollary of diversification. One more barrel of oil consumed in China, India or Madagascar is one less available for Europe, Japan or elsewhere. Every day, energy sources are becoming more interdependent and global in geographical scope.

However, there is another dimension that cannot be ignored, namely the special consideration of energy as a tradable good being outside the scope of the original GATT (General Agreement on Tariffs and Trade) rules: “*Energy is not just a good, it is a need, and a finite one, controlled by a small number of exporters, some of them in volatile and even*

insecure political environments”. We cannot expect the GATT, or any other bilateral or multilateral agreement, to stop energy being used as a potentially distorting economic and strategic issue, as demonstrated by the recent crisis between the Russian Federation and Ukraine which resulted in a curtailed gas supply to Western Europe.

Energy conservation is perhaps the cheapest and most effective way we have to deal with concerns about energy security, while also fulfilling our Kyoto and future Copenhagen objectives. Energy conservation – or the rational use of energy, as we prefer to term this clean, domestic and cheap energy source – has been high on the political agenda since it was “discovered” and launched in the late 70s, but really little has yet been done to promote it, except when soaring energy costs and higher taxes forced energy saving measures to be adopted.

We also have to consider technology. Technology, and the transfer of technology, is a powerful ally in energy conservation and the sustainable use of resources, but



without a real commitment from our societies and individual citizens, energy conservation and the sustainable use of resources will be little more than a short-lived fashion. Technology will give us a temporary sense of well-being, but the problem of too many people using too many resources per capita will be only temporarily postponed.

Thus, only the combination of a radical change in the use of natural resources with to the extensive use of ready-to-use technologies can help us face and surmount the dual challenge of climate change and energy security. Where does the European Union stand on these issues?

When it comes to the diversification of energy sources, the EU's situation is adequate, with a couple of black spots such as our dependence on oil from unstable political regions and the need to reach a stable and long-term general agreement with Russia.

We have made great strides in integrating our energy markets so as to better ensure price competition. At the same time, this has weakened the position of traditional, well-established energy companies, with some reduction in the quality of service as well as a drop in the resilience

of our energy infrastructure.

Energy use continues to be high – too high – although some progress is being made. Even so, much more focus and money have to go on convincing people that a kilowatt of energy that is not used is the cheapest, cleanest and most secure for Europe. This is where technology has to make the greatest inroads, and where our main “energy domestic reserves” lie.

Europe is highly dependent on energy and will continue to be so over the next 50 years. There are no miracle solutions. With higher levels of cooperation and greater shared vision we can, perhaps, attain the goal of a true Energy Union with diversified and secure sources of energy for all Europeans.

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Ukraine, Russia and the EU's energy security

by Agata Łoskot-Strachota, Centre for Eastern Studies (OSW)

In light of the continuing and ever-worsening conflict between Russia and Ukraine, the security of our energy supply is becoming an increasingly important subject in the discussions on the EU's energy policy. This can be seen both in the long-term solutions that are now being put forward (European Energy Security Strategy, the inclusion of energy security issues in the 2030 energy-climate package, the objectives of the new European Commission as regards the creation of the EU Energy Union) and in the EC's short-term measures in preparation for the onset of winter (stress-tests and EC recommendations, launch and continuation by the EC of tripartite Ukraine-Russia-EU gas talks which apparently finished on Oct. 30). Ukraine's gas problems have now become one of the key issues in EU-Russia gas relations. On the one hand they are a test

of whether it is possible to at least temporarily find some common ground regarding the *de facto* conflicting visions for the development of Ukraine's gas market. While the EU, e.g. through the Energy Community, supports Ukraine's European-style transformation and integration with the EU market, Russia is keen to stop the introduction of EU law and to maintain its dominant position. On the other hand, when seen in a broader context, these problems are part of a wider dispute about the very principles of EU-Russia energy cooperation.

Russian-Ukrainian gas problems and the EU

Since January 2014 till October 30th, Ukraine and Russia had been unable to reach any agreement regarding the price of Russian gas supplies or the terms for the repayment of Ukraine's gas debt. This led to a shutdown

in gas supplies to Ukraine in June, which represents no small challenge for Ukraine's gas security, especially as winter approaches. In addition, as Ukraine remains a key route for Russian gas exports to Europe, the Russian-Ukrainian gas dispute also represents a serious challenge to the stability of gas transit to the EU. On October 30th sides reached a brokered by the EU, temporary gas deal for winter. It is not certain though if it guarantees secure and uninterrupted gas supplies: firstly due to the fact that it is not addressing many of the systematic differences between Ukrainian and Russian positions and secondly that in fact it does not constitute a legally binding agreement.

Recent problems over the supply of Russian gas to the countries of Central Europe highlight the extent to which interruptions in the supply of gas to the EU could be a very real prospect this winter. Poland and Slovakia have been reporting a shortfall in gas supplies since early September. Austria and Romania have also experienced a temporary fall in their gas supplies. There is a lack of any clear or satisfactory explanation from Gazprom as to the reason for the reduced gas supplies. At the same time, in spite of the relatively small scale of these disruptions and the stable situation on the market - gas storage facilities are full and gas is readily available on energy exchanges - these developments have sparked rising concerns in Central Europe as to Russia's real motives and how the situation will develop in the future. If prolonged, these difficulties could also make it more difficult to provide reverse-flow supplies from the EU to Ukraine through Poland and Slovakia (Hungary suspended reverse-flow supplies at the end of September).

Conclusions

The events of the past few weeks demonstrate that it is the countries of Central and Eastern Europe and the Balkans which are most at risk of facing disruptions in the supply and transit of Russian gas. Equally, these countries represent a vital link in the EU's strategy of enabling gas exports to Ukraine from sources other than Russia. At the same time, along with the detailed national strategies, these issues must be carefully addressed by the contingency plans drawn up for the coming winter at

both EU and regional level.

Developments in the coming months and the short-term solutions to the Russia-Ukraine gas dispute (and the related problems in Central Europe) could have an impact on the final shape and on the very feasibility of the EU's long-term plans and strategy, including the formation of an EU Energy Union, and on the EU's energy relations with both Russia and Ukraine. It is therefore vital that the EU continues to play an active role in addressing the on-going challenges in the gas sector, and ensures the consistent and clear application of EU rules to all solutions covering the EU's internal market and, to an increasing extent, the countries of the Energy Community.



Equally, current events are also influencing Russia's energy policy and could speed up the changes already visible on Russia's gas market. While Russia has recently stepped up its efforts to diversify its gas exports (closer cooperation with China), there has also been a gradual reduction in

the role of Gazprom on the Russian internal gas market; over the long term, both these developments could affect the availability of Russian energy resources for the EU. Accordingly, the current policy of ensuring the security of supplies in the EU is torn between two visions that are not necessarily mutually compatible: the short-term vision, where the deteriorating relations with Russia result in a decrease in energy cooperation and in diversification, and the long-term vision according to which Russia is Europe's closest and largest producer of energy resources and where access to these resources is one of the most important factors for Europe's economic growth and prosperity.



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In memoriam of Dr Göke Frerichs

On 15 October the Employers' Group paid tribute to Dr Göke Frerichs, former Committee president and a member of Group I, who passed away on 26 September 2014. The Group observed a minute of silence in his memory.

Dr Frerichs held a doctorate in political sciences and was a member of the Bundestag (German parliament) from 1965 to 1975. His long political career led him to the office of president of our institution from 2000 to 2002. He was also vice-president of the Committee from 2002 to 2004 and an observer for the Committee at the European Convention in 2003. He was awarded the Grand Cross with Star (Großes Verdienstkreuz mit Stern) of the Order of Merit of the Federal Republic of Germany and the Gold Medal of the Foundation of European Merit.

Göke Frerichs worked tirelessly for the European project, building bridges between opposing parties, building a better Europe for all, and never losing sight of his ideals. His wisdom and his courage will continue to inspire us.



New member of the Employers' Group

The Employers' Group would like to welcome its new member, **Henri Wagener**, who will replace **Christophe Zeeb**. Mr Wagener represents the Fedil - Business Federation Luxembourg, where he has worked as an adviser on European affairs and as head of Fedil's Brussels office since 2008. Between 2006 and 2008 he was a political adviser to MEP Astrid Lulling.

Mr Wagener holds a bachelor's degree in economics, government and political theory and a master's degree in international relations, issued by the University of Manchester. He was born in 1982 in Luxembourg and speaks English, French, German and Luxembourgish.

TTIP roundtable

In December 2014 the Employers' Group will hold a roundtable discussion on the **Transatlantic Trade and Investment Partnership**. The representatives of the biggest EU business organisations (including BUSINESSEUROPE, EuroChambres, EuroCommerce, UEAPME, Copa-Cogeca, CEEP) will be given the opportunity to have a frank and open discussion with EU TTIP negotiator Ignacio Garcia Bercero. "The public discussion on TTIP focuses too much on politics and too little on economics. One aim of this meeting is to change that and to demonstrate that informed debate on the agreement is needed and possible", says Jacek Krawczyk, Employers' Group president and EESC rapporteur on TTIP.



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